



**MINUTES
JOINT REGULAR MEETING OF THE
FINANCE AND AUDIT COMMITTEE AND
SPECIAL MEETING OF THE BOARD OF DIRECTORS
THURSDAY, JANUARY 04, 2018
8:30 AM**

DIRECTORS PRESENT:

Bennett Drake	Committee Chairman	
Bill Wilson	Committee Member	
Lisa Herman	Committee Member	
William Plummer	Committee Alternate	
Carol Lee Brady	Board Member	
Angel Garcia	Board Member	
Danny Martin	Board Member	(Absent)

STAFF PRESENT:

General Manager Jeff Armstrong, Assistant General Manager - Engineering & Operations Eva Plajzer, Director of Finance/Treasurer Rick Aragon, Chief Engineer Andrew Webster, Director of Administration Jason Martin, Water Operations Manager Rich Ottolini, Construction Contracts Manager Heath McMahon, Engineering Manager - CIP & Development Jake Wiley, Water Reclamation Manager Mark Kaveney, Human Resources Manager Eileen Dienzo, Sr. Public Information Officer Meggan Valencia, Water Resource Manager Jeff Kirshberg, Finance Analyst Bill Moses, Accounting Supervisor Charlinn Watson, Senior Conservation and Water Budget Analyst Tyson Heine, Procurement and Contracts Administrator Mark Smith, and Sr. Administrative Assistant/Recording Secretary Milin Ream.

ADDITIONS TO AGENDA

There were no additions to the Agenda.

APPROVAL OF AGENDA

Chairman Drake called for approval of the Agenda of the Regular Meeting of the Finance and Audit Committee of the Rancho California Water District of January 4, 2018, as presented.

RESULT: APPROVED [UNANIMOUS]
MOVER: Lisa Herman, Committee Member
SECONDER: Bill Wilson, Committee Member
AYES: Bennett Drake, Bill Wilson, Lisa Herman

PUBLIC COMMENT

There was no public comment.

Item 1. Review, Discuss, and Provide Direction on the Potential Implementation of a Maximum Meter Flow Exceedance Penalty

Addressing the Finance and Audit Committee, Director of Administration Jason Martin reported on Rancho California Water District's (RCWD/District) proposed implementation framework for a Maximum Meter Flow Exceedance Penalty (MMFEP). Mr. Martin announced that MMFEP is a new concept that was comprised from the process of the District implementing a Revenue Protection program. One of the areas identified was customers who are exceeding the maximum flow capability of meters. Explaining, Mr. Martin advised the meter manufacturers have set a gallons per minute flow maximum that the meter can register. Additional water may flow through the meter physically; however, the manufacturers cannot guarantee that this additional flow will be measured accurately. This exceedance has resulted in meter degradation, meter failure, and a reduction in the meters useful life.

Mr. Martin advised that when water moving through a meter exceeds its maximum flow rate, this can create several problems. The water moving through the meter may not be accurately measured, which results in the District providing an unmeasured volume of water to customers that they are paying for. In addition, this unmetered water becomes an unrealized loss and affects the District's overall water loss totals which are used for internal analysis and reported to the state.

Continuing, Mr. Martin reviewed the objectives of the MMFEP Program which are to minimize meter replacement costs and accurately collect revenue for water delivered. He conveyed that this will ensure reduce max flow exceedance occurrences, as well as fund meter repair/replacement. This would be accomplished by issuing a warning letter alerting the customer that they are exceeding the manufacture's maximum meter continuous flow rating as well as provide some recommendations to remedy the issue. Should the issue continue, a penalty would be charged and assessed for each hour of exceedance. Mr. Martin advised that hourly meter read data allows the District to know when max flow rate is exceeded. He further advised that staff is recommending the penalty be billed quarterly since it will be a manual process and involve significant staff time. However, once the process becomes automated, it can be managed monthly.

Responding to a question posed by Director Wilson as to how a customer would exceed their meter flow, Mr. Martin advised it comes down to how quickly and how fast water is pushed through the meter, all at once over a few hours or over a longer period of time.

Chairman Drake inquired as to the standard meter pressures and questioned that, in the past RCWD did not set a max pressure; however, now there is more pressure, therefore

increasing the flow. Since customers can't alter the meters, he advised that perhaps it is the District's responsibility to put on a flow restriction. Chairman Drake advised however that should a customer tamper with the meter, then a penalty is fully justified.

Addressing Director Wilson's question regarding how many people are out of compliance, Mr. Martin shared data that was compiled since May 2017 detailing the number of customers exceeding their flows. Mr. Martin then reported that approximately 700 customer accounts exceeded flows with the top 100 being agriculture (Ag) and/or Ag/residential accounts.

Brief discussion ensued between the Committee and staff regarding pressure standards for residential meters, including customer outreach to the agricultural community regarding balancing their irrigation schedules and educating landscape maintenance companies on the irrigation systems.

Continuing, Mr. Martin shared the American Water Works Association Specifications for meters and illustrated a table outlining the potential penalty structure as follows:

Meter Size *	Meter Type *	Maximum Measurable Flow Capacity (gpm)	Flow Factor	Base Flow Rate	Hourly Penalty Rate
.75 inch	Standard	25	1	\$ 5.00	\$ 5.00
1 inch	Standard	40	1.6	\$ 5.00	\$ 8.00
1.5 inch	Standard	80	3.2	\$ 5.00	\$ 16.00
2 inch	Standard	100	4	\$ 5.00	\$ 20.00
2 inch	Turbine	200	8	\$ 5.00	\$ 40.00

* Not all District meter sizes and types are listed. However, this table comprises 99.2% of the District's installed meter base.

Director of Finance/Treasurer Rick Aragon commented that staff hopes that customer's will make adjustments after receiving the warning letter. However, for those that do not, the penalty charge would provide enough of a financial incentive to change behavior and make the necessary adjustments. He further noted that the funds set aside from the exceedance penalty could cover meter replacements.

Director Herman questioned if the District is aware that a customer has purposefully caused damage to a meter, why not charge them for the replacement of the meter. Mr. Martin explained that the District currently does not have any language written into its current policy to address such an occurrence; however, advised that this is something that staff can develop for the Committee's review and consideration.

At this time, a brief discussion ensued amongst the Committee regarding meter sizes, meter replacement costs, and the level of exceedance penalty to consider.

Continuing, Mr. Martin presented a PowerPoint slide outlining Penalty Level Considerations as follows:

- Help fund meter replacements

- Capture a portion of the revenue for unmetered water
- Provide enough of enough financial incentive to change behavior
- Not be overly burdensome

With regard to the alternatives, Mr. Martin reviewed the following aspects:

- Include an escalating fine structure
- Use a different base penalty amount other than the proposed \$5 charge
- Do not require meter upsizing after excessive exceedances
- Look at new meter technology
- Do not implement MMFEP

Speaking on some additional information, Mr. Martin announced that said penalties are not subject to Proposition 218 since the penalty is not a rate; however, advised staff would ensure proper noticing to District customers. There would also be an appeals process to address any extenuating circumstances on a case-by-case basis. Lastly, he conveyed that should the program be implemented, the District's billing system would not require any technical modifications.

A general discussion period ensued amongst the Committee and staff regarding a nexus for the penalty, staff's efforts to establish/define process timeline for warning letters and fines, and providing customer outreach and assistance.

Following discussion, the Committee provided direction to staff to establish a flow exceedance customer notification process, review and draft language to incorporate into the District's Policy concerning damage to meters due to flow exceedance, and meter up sizing in lieu of installing a flow restrictor plate. Staff's revisions would be presented at a subsequent meeting for the Committee's review and consideration.

Item 2. Update and Presentation on Potential Multi-Year Rate Approval Approach

Addressing the Finance and Audit Committee (Committee), Director of Finance/Treasurer Rick Aragon provided an information item for review and discussion regarding a potential multi-year rate approval approach.

Utilizing a PowerPoint presentation, Mr. Aragon briefly highlighted Rancho California Water District's historical annual notices and approvals approach as follows:

- Extensive four to five month process
- Separate Full Proposition (Prop) 218 notices
 - Bundled rate approval
 - Difficult messaging
- Vast majority (or all) rate increases due to the Metropolitan Water District of Southern California (MWD) and energy
- Costs approximately \$40,000 a year for 218 Notice alone

With regard to the proposed approach, Mr. Aragon reported that it would center on the

concept of specifically approving all non-MWD driven rate increases (staffing, water resources changes, energy costs) for each of the three proposed years being approved, and treating increases in MWD costs as a separate pre-approved pass-through rate for the actual increases that occur with MWD. Moreover, he explained that said MWD pass-through rates would be constrained to a predetermined reasonable limit and show as such on the Proposition 218 rate notice.

Continuing, Mr. Aragon discussed the related issues with a multi-year approach, stating that budgeting will still be conducted annually, with years two and three revenues built around approved rates. He stated that Pass-Through rates would be noticed 30 days in advance of implementation, whereby they would be noticed in customers regular bills. As well, Mr. Aragon advised that staff proposes to utilize Raftelis Financial Consultants Inc. to develop a three-year Cost of Service study.

At this time, Director Wilson requested staff to provide detailed information on how much savings (in actual staff time) would be generated with a multi-year budget approach.

Director Brady inquired as to any constraints within the law should the District have to adjust the three-year rates due to MWD's rate increases, Mr. Aragon responded by explaining that if things are better than expected, then there would not be a need to increase rates. However, if the climate fairs for the worse, then there is a legal process that would need to be followed to make any necessary adjustments.

Director Herman stated that should the District take a multi-year rate approval, then she supports the option of a two-year approach to see how the process works. She further stated it would be a good way to gauge how in synch RCWD's forecasting is with MWD.

Chairman Drake inquired as to how MWD is handling the WaterFix cost. Responding Mr. Aragon explained that it will be based on all raw water costs and further advised that staff's rate projections have already included MWD's costs.

Following review and discussion, staff was directed to develop a two-year rate approval approach and to bring back said analysis for the Committee's review. Additional direction included the details related to the savings on staff time with Prop 218.

With no further discussion, Chairman Drake moved to Agenda Item 3.

Item 3. Review of Financial Statements - November 30, 2017

Presented for the Finance and Audit Committee's (Committee) review and acceptance were the Rancho California Water District (RCWD/District) Financial Statements of November 30, 2017. Included in the Committee information packets, which were received by Committee members prior to the meeting, were copies of the District's Financial Statements as of November 30, 2017 and a report, which included a written summary, graphic illustrations of operating and non-operating revenues, and expenses for the month of November 2017.

For the Committee's information, Assistant General Manager - Engineering and Operations Eva Plajzer provided an update regarding a 12-inch water line failure which occurred at 6:00 a.m. Ms. Plajzer advised that there is one lane of the road near Rancho Vista and Via Loma that will be out of commission for repairs.

Director Plummer inquired as to his previous request to have a line item showing how much credit RCWD receives from the solar credits and how they are in relation to the District's financials. Responding, Accounting Supervisor Charlinn Watson explained that there is usually a one to two month delay as to when staff is notified of said credits which can make it difficult to report back to the Committee. Ms. Plajzer announced that she would be able to provide some information at the January Engineering and Operations Committee meeting.

A motion was made by Director Wilson to recommend Board of Directors approval of the November 30, 2017 Financial Statements. Director Herman seconded the motion, and it carried unanimously.

RESULT: APPROVED [UNANIMOUS]
MOVER: Bill Wilson, Committee Member
SECONDER: Lisa Herman, Committee Member
AYES: Bennett Drake, Bill Wilson, Lisa Herman

Item 4. Review of Treasurer's Report, Certification of Cash Sufficiency, and Related Investment Activity Data, as of November 30, 2017

Presented for the Finance and Audit Committee's (Committee) review and acceptance were the Rancho California Water District Treasurer's Report and Certification of Cash Sufficiency as of November 30, 2017. Included in the Committee information packets, which were received by Committee members prior to the meeting were copies of the Treasurer's Report and Certification of Cash Sufficiency, Cash Reserve, Compliance and Treasury Fund reports, and individual investment activity reports for the month of November 2017.

A motion was made by Director Herman to recommend Board of Directors approval of the November 30, 2017 Treasurer's Report. Director Wilson seconded the motion, and it carried unanimously.

RESULT: APPROVED [UNANIMOUS]
MOVER: Lisa Herman, Committee Member
SECONDER: Bill Wilson, Committee Member
AYES: Bennett Drake, Bill Wilson, Lisa Herman

Item 5. Review of Outside Contracts, Capital Projects, and Purchasing Reports

The Finance and Audit Committee accepted the Outside Contracts Summary, Capital Projects Status Report, and Purchasing Reports, as presented.

Chairman Drake requested staff research and present an explanation as to the activity

on some of the wells at the January 25, 2018 Engineering and Operations Committee meeting.

Item 6. Review and Ratification of the Register of Audited Demands for the Period November 22, 2017 through December 21, 2017

The Finance and Audit Committee reviewed the Register of Audited Demands for the period November 22, 2017 through December 21, 2017, whereby Accounting Supervisor Charlinn Watson provided further clarification on Warrant Nos. 144635, 144652, 144727, 144683, 144949, 144753, 144811, and 14483.

A motion was made by Director Wilson to recommend the Board of Directors approval of the Register of Audited Demands for the period November 22, 2017 through December 21, 2017, totaling \$8,424,262.12, as presented. Director Herman seconded the motion, and it carried unanimously.

RESULT: APPROVED [UNANIMOUS]
MOVER: Bill Wilson, Committee Member
SECONDER: Lisa Herman, Committee Member
AYES: Bennett Drake, Bill Wilson, Lisa Herman

Item 7. Adjournment

There being no further business to come before the Committee, the meeting was adjourned at 10:10 AM.